



White Paper: Housing Trends

July 18, 2017

Introduction

The City of San Luis Obispo, home to just over 45,000 residents and a large university community, is experiencing a housing crunch, with housing supply unable to meet increasing demand for both traditional and non-traditional housing choices. The City is interested in investigating new types of well-designed and affordable options for housing downtown—and in the neighborhoods—that can accommodate evolving lifestyle choices and respond to increasing housing costs. This white paper explores different types of non-traditional housing found in other cities, including tiny homes, accessory dwelling units, and microunits. The paper highlights key issues that should be considered concurrently, such as parking requirements and neighborhood compatibility for new units. The paper also provides examples of policies adopted by other municipalities to encourage appropriate development of emerging types of housing. Implications of these emerging housing types as they apply to the City's zoning regulations are presented at the end of this paper.

Accessory Dwelling Units

Accessory dwelling units (ADUs, and also referred to as secondary dwelling units or granny flats) offer flexibility to primary residences to build a second smaller unit on a lot zoned for single-family residential use. Most often, ADUs are constructed to house an aging family member or in-home health care provider, or to be rented for supplemental income. These structures are considered a key method of adding housing within a single-family neighborhood without compromising the neighborhood's look and feel. The California Department of Housing and Community Development notes that ADUs are an innovative and effective option for increasing the housing supply in California. The mainstream use of ADUs offers the opportunity to greatly increase housing supply. For

WHAT IS AN ADU?

According to the State Department of Housing and Community Development, an ADU is a secondary dwelling unit with complete independent living facilities for one or more persons, generally in one of these forms:

- *Detached*: The unit is separated from the primary structure.
- *Attached*: The unit is attached to (or included within) the primary structure.
- *Repurposed Space*: Space within the primary residence (e.g., master bedroom) is converted into an independent living unit.
- *Junior Accessory Dwelling Unit*: Similar to repurposed space, but with streamlined review procedures and generally without additional parking.

example, if 10 percent of San Luis Obispo’s 19,193 households¹ built an ADU, the result would be over 1,900 new housing units.

The City recently adopted a comprehensive Accessory Dwelling Unit ordinance (codified in Section 17.21.010 of the Municipal Code) to address recent changes in State law. (The new ordinance replaced the former Secondary Dwelling Unit ordinance.) As described in the conclusion of this paper, these recent regulatory changes could provide the basis for further changes designed to encourage the development of new housing options for residents.



Figure 1: Examples of Accessory Dwelling Units in the backyard (left) and on top of a garage (right)

California Regulation

Two California bills (AB2299 and SB1069) that took effect in January 2017 were crafted to remove barriers to construction of ADUs. Most significantly, the laws allow jurisdictions to eliminate off-street parking requirements and prohibit agencies from mandating separate utility hookup fees for ADUs. A third new law, AB2406, authorizes local government to permit junior accessory dwelling units (JADUs).

Specific local regulations vary based on the building code and zoning adopted by municipalities. Research has found, however, that cities that work to reduce the building, zoning, and financial requirements often find an uptick in ADU production. After putting in place zoning reforms, pre-approved designs, and a low-interest loan program, the City of Santa Cruz saw ADU production triple.²

Neighborhood Compatibility

One frequent concern of building more accessory dwelling units is that their prevalence may compromise the character of a single-family neighborhood. Although ADUs are often placed behind primary dwellings, sometimes they may be visible from the public street. Other cities have addressed this concern by directing the architectural design and materials to be substantially the same as the primary residence (which is what San Luis Obispo requires).

¹ U.S. Census Bureau, 2010 Census

² Wegmann, Jake, and Alison Nemirow. 2011. “Secondary Units and Urban Infill: A Literature Review”

Parking Requirements

Some people worry that increasing the number of residents in a neighborhood without creating new parking will reduce the availability of on-street parking for current residents. Limited research findings are available regarding the effects of ADU construction on parking, but studies show that not all ADU residents have cars and that not all associated cars are parked on the street (particularly if local regulations require a parking space for the ADU). A study of ADUs in the east San Francisco Bay Area found that 22% of ADUs had no associated cars, and of those that did, 70% were parked on the street.³

AB2299 reduces parking requirements for ADUs and prohibits parking requirements if the ADU is⁴:

- Within one-half mile from public transit
- Within an architecturally and historically significant historic district
- Part of an existing primary residence or an existing accessory structure
- In an area where on-street parking permits are required, but not offered to the occupant of the ADU
- Located within one block of a car share area

Tiny Homes

Tiny homes are a growing movement for people who want to live minimally, decrease financial costs, and decrease their energy consumption. Although becoming ubiquitous in name, the form and function of tiny houses varies. Given this wide variety of housing configurations, tiny homes may constitute more of a social movement rather than a unique housing type. Yet the cultural, economic, and social factors driving the movement suggest that cities should seriously consider whether and how to modify their zoning codes in response.



Figure 2: Examples of a tiny home on a foundation (left) and a tiny home on wheels (right)
(Sources: UNC School of Government; City Observatory)

Tiny homes can range in size anywhere from 80 to 400 square feet, and some are built on a chassis (an axle with wheels), while others are placed on a foundation. For municipalities, tiny homes also vary in

³ Wegmann, Jake, and Karen Chapple. 2012. "Understanding the Market for Secondary Units in the East Bay"

⁴ California Department of Housing and Community Development. 2016. "Accessory Dwelling Unit Memorandum"

allowed placement, as some are regulated as accessory dwelling units and sited behind primary residents, while others may be considered recreational vehicles (RVs) and placed as part of a larger grouping or tiny home village. For San Luis Obispo, providing specific regulations for tiny homes might incentivize this type of housing that has increasing appeal to students, young professionals, and retirees.



Figure 3: Tiny Home Village called Boneyard Studios in Washington, D.C.
(Source: Shinytinymansion.com)

One way that tiny homes can be used to as a strategy to expand the housing supply is by zoning specific districts to spur tiny home developments. The city of Rockledge, Florida has achieved this by permitting tiny homes but only within two zoning districts. The first is redevelopment mixed use (RMU) zones, where it is hoped tiny homes will be a catalyst for economic development while also creating more walkable communities. Tiny home development may also occur within Planned Unit Development districts (PUD), which create pocket neighborhoods designed exclusively for tiny houses. Each PUD must have a minimum of four tiny homes and a maximum of 12 tiny homes, plus a centralized common area. The pocket neighborhood community must be part of a condominium or homeowners' association to maintain the common areas. A full copy of the Rockledge tiny home regulations can be found at <http://americantinyhouseassociation.org/model-zoning-for-tiny-houses-from-rockledge-fl/>.

The Rockledge zoning regulations permit both types of tiny homes: those built on foundations and tiny houses on wheels (THOW). These include conditions for the THOWs, such as requiring porches, designed to encourage occupants to establish roots in the community. Currently, the City of San Luis Obispo Zoning Regulations would not allow THOWs since under California law they are classified as recreational vehicles. These are not allowed as dwelling units on private property outside of legally operated mobile home parks, travel trailer parks, campgrounds or safe parking facility.

The City of Portland, Oregon recently moved 16 tiny homes onto an inner-city lot to establish that city's first homeless village for women. The housing is transitional, with the goal of helping residents move to permanent housing.⁵

If the City of San Luis Obispo wishes to explore allowing tiny homes as either ADUs or in tiny home developments, the preferred approach may to focus exclusively on tiny homes built on foundations, as they may be seen as more compatible with the character of the local community and more critically, tiny homes on wheels are regulated by the State as motor vehicles (see following discussion).

At the June 3, 2017 community workshop kicking off the Zoning Regulations update, information provided about tiny homes generated enthusiastic response from many participants.



Figure 3: Kenton Women's Village in Portland, Oregon (photo from *Los Angeles Times*)

California Regulation

Currently, California has no statutory requirements aimed specifically at the construction or regulation of tiny homes. If the tiny home falls within the definition of an ADU, State and local regulations apply. An informational bulletin from the State Department of Housing and Community Development highlights that to be occupied, a tiny home must comply with the standards of either a manufactured home (as defined and regulations by federal Housing and Urban Development codes), a California

⁵ *Los Angeles Times*. July 11, 2017. "In tiny houses, a big experiment."

Residential Code or California Building Code home, factory-built housing, a recreational vehicle, a park trailer, or a camping cabin.⁶

Tiny homes on foundations are often classified as ADUs and must follow applicable local residential building and zoning codes, such as maximum ADU size per lot size and setback requirements. In contrast, tiny houses that are on wheels are classified as RVs, and many local jurisdictions do not allow permanent occupancy of RVs, except in areas zoned for mobile home use.

Municipal-level regulation varies greatly across the State. In Sonoma County, for example, tiny houses on wheels are allowed as “caregiver dwellings” when the tiny home or primary residence is housing a friend or relative providing care for the other occupant.⁷ The City of Fresno recently adopted a more lenient policy that allows tiny homes on wheels (called “backyard cottages”) to be parked as a permanent secondary unit, without any restriction of the occupant.

With regard to property taxes and tiny homes, if such a home is permanently placed on a property, it would be considered a property improvement and thus affect the assessed value of the property. How a tiny home on wheels might be taxed is more difficult to discern, as it may be considered a mobile home and thus subject to licensing through the Department of Motor Vehicles.

Neighborhood Compatibility

Like ADUs, a primary concern of tiny home development is compatibility in existing neighborhoods. The City of Fresno’s policy for ADUs and tiny homes notes that if the tiny home is visible from the street or a park, then the “architectural design, roofing material, exterior materials and colors, roof pitch and style, type of windows, and trim detail” should be nearly the same and visually compatible with the main residence.

Parking Requirements

Similar to other alternative housing being built in neighborhoods, existing neighbors are concerned of tiny homes’ impact on on-street parking availability. If the tiny home is considered an ADU, then similar regulations apply and parking requirements are prohibited under specified conditions, including placement of the tiny home within one-half mile of public transit.

⁶ American Tiny House Association. 2016. “State of California Issues Information Bulletin on Tiny Homes.”

⁷ Tiny House Community. 2015. “Caregiver caravans legal in Sonoma and other northern CA countie.s”

Microunits

Microunits, or “efficiency dwelling units,” are small apartments, often 200 and 300 square feet in size, that include a bedroom area, bathroom, and cooking facilities within a small space. Microunit apartment developments are being constructed in cities such as San Francisco, New York, and Seattle such developments appeal to young professionals who want to be close to urban amenities and do not require much living space. (Seattle has coined the term “a-pod-ments” for microunits.) With a comparatively smaller footprint for each apartment unit, microunits developments can house a greater number of people per square foot. Opponents argue that microunits are marketed as luxury housing and do not provide an affordable housing choice; microunits in cities often rent at comparatively high rates per square foot to other larger studios.

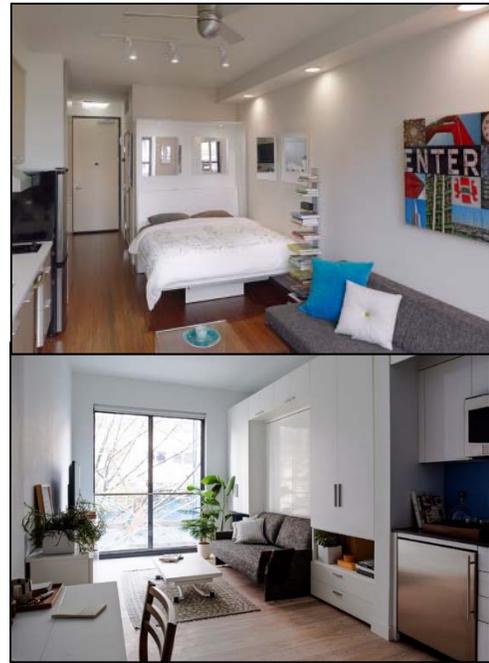


Figure 4: Microunit apartments in San Francisco and New York City
(Sources: *New York Times*; International Making Cities Livable)

California Regulation

Statewide, there are no regulations on microunits, and minimum required living space (the main constraint on developers building microunit apartments) are adopted locally. In 2012, for example, the City of San Francisco approved an ordinance to decrease unit sizes to allow units as small as 220 square feet, including the bathroom and closet space.

Other cities are looking at prefabricated micro-units to house low-income and homeless individuals. The City of Berkeley, for example, is exploring the feasibility of stacked 160-square-foot prefabricated microunits available to seniors, disabled, and low-income residents.

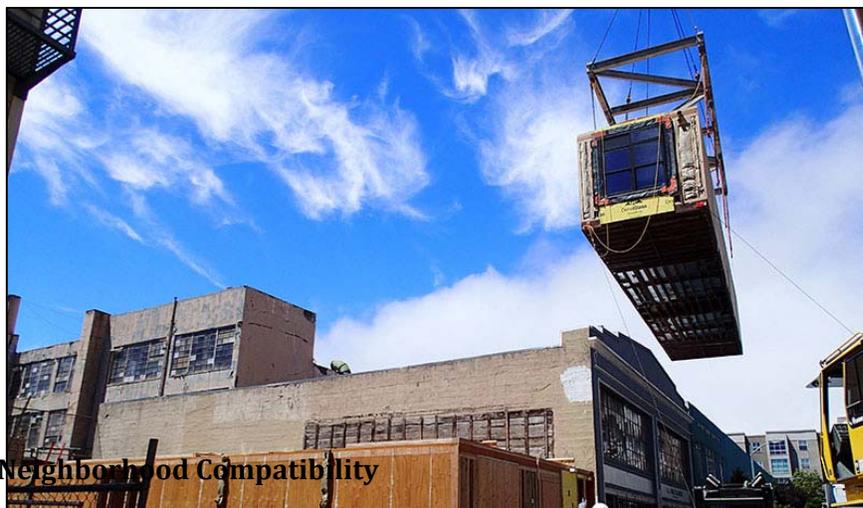


Figure 5: Some developers use modular construction for building microunits
(Source: Urban Land Magazine)

Neighborhood Compatibility

The main concern of compatibility for microunit apartments is the height and size of the building in the surrounding landscape. Microunit developments are often built downtown in areas of higher heights and densities, reducing this concern.

Parking Requirements

Building parking in urban areas and suburban downtowns is costly, and an apprehension for developers building microunits is minimum parking requirements. Developers claim that most microunit residents will not have a car but will use other transportation options, aided by the fact they are located near transit hubs. The reduction of parking spaces, however, can lead to microunit residents parking cars on nearby neighborhood streets.

Cohousing

Cohousing is an intentional community of homes or apartments that includes shared spaces. In a traditional cohousing community, each family or individual has its own house or apartment that includes amenities and a kitchen. Cohousing also includes shared spaces, such as a kitchen, dining room, and recreation areas that are used for communal meals and activities. These communities can be built in urban, suburban, or rural contexts.



Figure 6: An affordable cohousing community in Sebastopol; Swan Market cohousing in Oakland
(Sources: www.ic.org; co-housingsolutions)

In recent years, developers have started to build cohousing projects for baby boomers and seniors, creating spaces for aging adults who want to downsize and live in a supportive environment with peers. Senior cohousing can provide an alternative to assisted living, where residents can offer each other valuable services such as shared meals, companionship, and rides to the doctor offices.

One of the concerns of cohousing communities is that the price of the market-rates homes is often unaffordable to many. A few non-profit developers are building affordable cohousing communities, making this type of living attainable to more people. Petaluma Avenue Homes, for example, is an affordable cohousing community that has 45 apartments and townhomes for low-income families and

seniors. The Swan Market cohousing community, with 20 units on 0.3 acres of land, is nestled alongside affordable rental apartments and retail and restaurants (see Figure 6).

Cohousing examples have sparked similar housing models that bring together individuals with unique needs and the desire to build intentional community. In the Netherlands, the Humanitas retirement home provides college students with rent-free housing in exchange for 30 hours a week helping retirement home residents. In a different example, the website CoAbode connects single mothers who want to live together and share tasks such as childcare, cooking, and grocery shopping. With rising rents and housing prices, unique housing arrangements offer the opportunity to decrease housing costs and have peoples' needs met through community sharing.

California Regulation

California law has no regulations specific to cohousing. As developers build cohousing, they must abide by local land use, zoning, and entitlement process consistent with their building plans. Once cohousing is built, the community is often legally structured as a homeowner association (HOA), condominium association, or housing cooperative.

Absence of Density Limits and Reduced Parking

San Luis Obispo, like most jurisdictions in California, regulates housing development based on whether it is classified as "single-family" housing or "multifamily" housing, together with the densities that may be achieved in terms of the maximum number of "dwelling units" (individual residences) per acre of land. Single-family means a stand-alone, detached residence on one legal parcel. Multifamily means more than one residence in a building, such as a duplex, condominium, or apartment. The terminology is somewhat problematic when referring to townhomes, as they may be attached to each other (side to side) but each individually owned townhome occupies a separate legal parcel.

The types of housing and density limits imposed by a general plan and zoning code generally are intended to preserve the character of established neighborhoods and ensure that new development integrates well into a neighborhood. For multifamily housing, typically the concerns are the size, orientation, and setbacks of new development, as well properly addressing privacy concerns adjacent to single-family neighborhoods and limiting the amount of traffic generated.

The City's Zoning Regulations have a very complex system of determining the maximum allowed density. Density is calculated based on the average slope of a property and the number of bedrooms in a dwelling unit. See Section 17.16.010 of the Zoning Regulations (included as Appendix A). If a developer is looking to develop, for example, in the R-3 zone, the density cap of 18 units per acre established in Chapter 17.28 would be further modified (likely reduced) by the provisions in Section 17.16.010, which, for example, count three-bedroom dwellings as 1.50 units and four-bedroom dwellings as 2.00 units.

Demographic trends indicate that many young adults prefer smaller living spaces and do not own cars, two considerations that are not well addressed by the City's current density standards and parking requirements. These preferences are reflected in the market responses described above to produce

microunits—which in San Luis Obispo may not be possible to construct given the multifamily density limits in residential and mixed-use zones—and the evolving trend toward providing fewer parking spaces per unit.

A common approach many cities in California use to address both compatibility concerns and trends toward smaller units is to forego density limits and instead regulate residential development based solely on building height, setbacks, step backs, lot coverage, placement of parking, etc. This “form” based approach focuses on the physical relationship of new development to its neighbors. With no density limit, a greater number of residential units may be accommodated in the same building form which the City’ Zoning Regulations currently dictate. Units can be smaller and the total amount of parking required may be less if parking is based on the number of bedrooms in a unit, as it is in San Luis Obispo.

Parking trends in cities well served by transit and/or with walkable urban districts have moved to require fewer parking spaces per residential unit. Some cities have established maximum rather than minimum parking standards to encourage reduced auto dependence. Property managers of multifamily housing have also seen the opportunity to base rental/lease rates on whether a tenant needs a car parking space. These approaches, where used, often need to be balanced with other parking controls to ensure that reduced off-street parking does not impact on-street parking supply.

Considerations for the Updated Zoning Regulations

The City clearly recognizes local housing needs. The recently adopted ADU ordinance states its intent to “expand housing opportunities by increasing the number of smaller units available within existing neighborhoods.” The ordinance does this by establishing minimum size requirements that accommodate the construction of tiny homes, defined as a dwelling unit that is 400 square feet or smaller in floor area, excluding lofts. The ADU defines the minimum based on the size of an efficiency unit as stated by the California Health and Safety Code, which has a minimum of 150 square feet per unit, well within the range of the 400-square-foot tiny home maximum. Although the ADU ordinance effectively resolves the minimum size hurdle, its potential to expand the housing supply is limited by the provision that the owner of the property must occupy either the primary residence or the ADU.

As the City investigates options for addressing housing needs in the community, these considerations may guide the discussion:

- Further modifications to the ADU regulations may be warranted to make it easier to build ADUs on challenged lots. This could consist of eliminating the owner occupancy requirement, reducing setbacks, eliminating landscaping requirements, and/or allowing units in side or front yards, among other relaxed standards.
- Density limits could be eliminated for Downtown to allow smaller units within the established building forms defined as appropriate for Downtown. Similar consideration may be given to the R-2, R-3, and R-4 zones.

- Determine whether micro units are a viable and desired housing option.
- Tiny homes may present a housing option not just as ADUs but within small-lot subdivisions or as temporary/transitional housing.
- Density requirements could be adjusted so that units with three or more bedrooms do not effectively reduce the overall unit yield. This could result in more units within developments.
- Parking requirements for Downtown residential uses can be modified to incentivize development of housing affordable to a broader range of income levels. Modifications could include reduced parking per unit, allowance for off-site parking that is leased separately from the unit (so-called unbundled parking), and broader-based sharing arrangements with commercial and office uses.
- Specific zoning regulations could be crafted to encourage or better accommodate co-housing.

The investigation of non-traditional housing choices offers the opportunity to concurrently respond to a housing shortage and increasing housing costs, and to accommodate evolving housing needs and desires.

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APPENDIX A: CALCULATING DENSITY

From Municipal Code Title 17 – Zoning Regulations

17.16.010 Density.

A. Determination of Allowed Development.

1. "Density" is the number of dwellings per net acre, measured in density units. In the AG, C/OS, and R-1 zones, each single-family dwelling counts as one density unit. In the other zones, different size dwellings have density unit values as follows:
 - a. Studio apartment, 0.50 unit;
 - b. One-bedroom dwelling, 0.66 unit;
 - c. Two-bedroom dwelling, 1.00 unit;
 - d. Three-bedroom dwelling, 1.50 units;
 - e. Dwelling with four or more bedrooms, 2.00 units.
2. The following procedure shall be used to determine the maximum development allowed on a given lot or land area:
 - a. Determine the Average Cross-slope of the Site. "Average cross-slope" is the ratio, expressed as a percentage of the difference in elevation to the horizontal distance between two points on the perimeter of the area for which slope is being determined. The line along which the slope is measured shall run essentially perpendicular to the contours.
 - i. Where a site does not slope uniformly, average cross-slope is to be determined by proportional weighting of the cross-slopes of uniformly sloping sub-areas, as determined by the Community Development Director.
 - ii. Cross-slope determinations shall be based on the existing topography of the net site area after subtracting the area for any future on-site grading necessary to accommodate proposed right-of-way improvements and other on-site improvements.
 - iii. Cross-slope shall be calculated only for the net area as defined in Sub-section A2b below.
 - iv. When the calculation of cross slope results in a fractional number, it shall be rounded to the next highest whole number if the fraction is one-half or more; otherwise it shall be rounded down to the next lowest whole number.
 - v. No slope-rated density reduction is required in the C/OS, C-R, C-C or PF zones.
 - vi. The maximum development allowed for each average cross-slope category is as follows:

Table 1: Maximum Residential Density for Cross-Slope Categories

***R-2 zone, see section d.1. below**

By approving an administrative use permit, the Director may grant exceptions to the reduction of density with slope where the parcel in question is essentially enclosed on all sides by development at least as dense and within the same cross-slope category as the proposed development. The exception shall not authorize density greater than that allowed for the category of less than 15% slope for the appropriate zone. (See also Section 17.12.020D, Nonconforming Lots - Regulations.)

- b. Determine the Net Area of the Site. "Net area" is all the area within the property lines of the development site, excluding the following:
 - 1. Street right-of-way dedicated and proposed to be dedicated to the City;
 - 2. Area between the tops of banks of creeks shown on the Open Space Element "Creeks Map";
 - 3. Habitat occupied by species listed as "endangered" or "threatened" by the U.S. Fish and Wildlife Service or the California Department of Fish and Game, or as "plants of highest priority" by the California Native Plant Society, unless the Community Development Director determines there is no "practical alternative" as defined by the General Plan;
 - 4. Area within the drip line of "heritage trees" designated by the City.
- c. Multiply the resulting area (in whole and fractional acres) by the maximum density allowed (in density units per acre) according to Table 1 of this section. (Ord. 1365 (2000 Series)(part))
- d. The resulting number (in density units, carried out to the nearest one-hundredth unit) will be the maximum residential development potential. Any combination of dwelling types and numbers may be developed, so long as their combined density unit values do not exceed the maximum potential.
 - 1. For a single-family residence (single unit on one lot) located in the Medium-Density Residential Zone (R-2), density unit values may be rounded up to the nearest half (.5) density unit (example: 1.37=1.5). Condominiums and common interest subdivisions shall conform to standard R-2 density requirements where maximum density is calculated by rounding to the nearest one-hundredth unit.

B. Density Transfer.

1. Development potential may be transferred within the area covered by a planned development (PD) zone, in conformance with the requirements of Chapter 17.50.
2. Where a portion of a lot is within a zone or zones that allow residential use and the rest of the lot is in a C/OS zone, and the portion within the C/OS zone is not large enough to allow one dwelling, the fractional dwelling unit potential from the C/OS zone may be transferred to the other portion of the lot, without planned development rezoning.

C. Density Averaging.

Where portions of a lot are within two or more different zones that allow different maximum densities, and any portion is not of the size required for a lot in that zone, density may be averaged over the whole lot, with each portion contributing to the overall maximum development potential in proportion to its area and maximum allowed density.

D. Density Bonus for Low-income and Moderate-income Housing.

Pursuant to California Government Code Section 65915, the City may negotiate a density bonus or other benefits in exchange for provision of housing affordable to households with low or moderate income, as defined in the Government Code, and as stipulated in Chapter 17.90 of these regulations. (Ord. 1085 - 1 Ex. A (part), 1987; Ord. 1006 - 1 (part), 1984; Ord. 941 - 1 (part), 1982: prior code - 9202.5(B))

E. Exceptions for Dwellings Rebuilt After Involuntarily Destroyed.

Residences in R-1, R-2, R-3, R-4, O, C-N, C-C, C-R, C-T, C-D and C/OS zones, which have been involuntarily damaged or destroyed by fire, other catastrophic event, or the public enemy by more than 50% of their pre-damaged value, may be rebuilt at the same density and up to the same size, under the following circumstances:

1. All construction must conform to current building codes, zoning regulations, and architectural guidelines, except that the previously existing number of dwelling units and size of buildings will be allowed.
2. A building permit for the replacement structure(s) must be obtained within three years of the date of the damage or destruction.
3. Notwithstanding the above provisions, application for replacement structures of the same density and size may be denied if the Community Development Director makes one of the following findings:
 - a. The reconstruction, restoration, or rebuilding will be detrimental or injurious to the health, safety, or general welfare of persons living or working in the neighborhood.
 - b. The reconstruction, restoration, or rebuilding will be detrimental or injurious to property and improvements in the neighborhood.
 - c. The existing nonconforming use of the building or structure would be more appropriately moved to a zone in which the use is permitted.
- d. There no longer exists a zone in which the existing nonconforming use is permitted.